Dialogues Series: Money Talks 2001

1st dialogue: **Cracking The Code** (local economy) 1.21.01

Moderators/Series Co-Curators: Alisa Solomon & Marilyn Neimark

Guest speakers: Seth Ackerman and Michael Zweig

Melanie Joseph: Hi everyone, I'd just like to quickly welcome you to the first of MONEY TALKS and disseminate a little information and then proceed to our guests. My name is Melanie Joseph, and I'm the artistic director of the Foundry Theatre, and from time to time we like organize roundtables or dialogues around particular topics that are hard to understand. So, Alisa and I talked about the inscrutable terms around economics – money – for me, if I even try look at an article in the business section of the *Times* for example, I read three words and then I go to the next section, because I don't know what the hell they're talking about. I don't know what an economic indicator is, I don't know how to parse the unemployment rate—I don't know much of anything is. And I figure I'm not alone in this, that a lot of people don't know, and since money and the way it's moved around seems to have taken hold of the definition of our society, I thought, "Let's take a second and figure out what these things are, and find out if we actually mean them to be what they mean … what they do to our lives and culture."

So, Alisa and Marilyn—this is Alisa Solomon and Marilyn Neimark and I'd really like to thank them for helping out with this… [*applause*] … So, welcome and thank you to them and to our guests, Michael Zweig and Seth Ackerman, … and I think the program is pretty clear on how we're going to proceed ….

There will be 2 more roundtables coming up: one is February 11th, and that will focus on the global economy, it'll be here, please make reservations, and if you think you know other people who would like to come, particularly from the artistic community, which is always the community The Foundry is first looking to gather, please let them know, and if you give me their names and addresses, we'll send them these a little Monopoly money invitations.

and on February 25th we will look at productive areas of intervention. I'm excited about all of them, and I'm especially excited because we have Naomi Klein, who wrote a fantastic book called *No Logo*, coming to the 25th, and Kevin Danaher from Global Exchange, which is one of the groups that was prominent in organizing the IMF protests in Seattle. I think it'll be really interesting to get a report on how things are going in that department. So please come again, tell your friends, and make reservations, and thank you so much for coming.

Alisa Solomon (AS): Well, as Melanie said, as it says in your program, we going to try to begin by going over some basic terms, and I asked you to take a look at the *Times* article, and I think a good place for us to start is going to be just by demystifying some of the terminology there. Just before we do that, I'm going to ask Michael to give us a two or three minute set, framing definitions: what are we talking about when we say "the economy," "the market," "economics"? What are those things, and what are different ways of looking at them generally?

Foundry Dialogues: Money Talks 2001
1st dialogue: **Cracking the Code** (local economy) 1.21.01

Michael Zweig (MZ): Well hello, thanks all for being here. It's really a beautiful day outside. Here's just for openers, I want to say that economics is a very broad kind of subject. In the broadest sense, you can talk about economics or the economy in two ways. You can talk about the economy as a system of production—how things get made, who gets them—that's distribution. So, it's production and exchange and distribution. Now in a capitalist economy, the kind we live in, the market is the mechanism that operates to…either signals to producers through prices and through consumers, and consumers are talking to producers through the market, through prices, through their willingness to buy or bring to the market to sell. And the market then is the mechanism through which information is exchanged and then products are exchanged, and decisions are made about what to produce, how to produce it, who gets it. So, economics in the broadest sense you might think of as a whole social system by which people produce. But there's a much narrower way of thinking about economics, which is that it becomes the sum of the market itself, just as a mechanism, and in the founding days of economics as a discipline, with the great thinkers, Adam Smith, John Stuart Mill, all the great economists, founding economists, they understood about the market, but they didn't really focus their attention on the market. They talked about the economy as a social system. And of course, Marx is the last great thinker in that tradition, that talked about the economy as a whole, as a social structure, and the market in there.

More recently, in the last hundred years or so, economics has become the study of the market just as a mechanism, and all the social aspects have been kind of driven out of the picture, and we've been told, "Well that's sociology or that's anthropology or that's history, but if we're talking about economics, let's just talk about the market as a mechanism." So, a lot of the terms that are in these discussions here today, like what's unemployment, what's the Fed, so on and so forth, those are questions that come just on the level of what's the market as a mechanism. But I want to encourage you to think more broadly, and I do this professionally, among economists— encourage economists to think more broadly about production as a social system and to let go of that tradition, and in understanding your society and economics as a social matter, the most important thing to keep track of is class. That there are classes, there's a working class, there's a capitalist class, there's a capitalist society over Fifth Avenue, *Forbes Magazine* capitalist tool. We can talk about them being capitalist. And there are classes in this society that mean something very profound, even for how that market mechanism works. So, there's a limit to how far you can get in understanding the mechanism, reading the definitions and the terms, if all you do is look at the mechanism outside that social context. So, in our discussion today, we'll maybe try to bounce around in these different realms and try to see how they inform one another. But that's just by way of broad introduction.

Marilyn Neimark (MN): Let me challenge you to do that by asking you about the third paragraph in this article, because the third paragraph in this article…

AS: Wait, wait, wait. I was going to look for basic terms.

MZ: I was going to collect them.

AS: Yeah, I was going to put them on the board. Okay? Sorry. We're going to come back to the third paragraph, because what I wanted to do first, which I haven't told Marilyn, but I told everyone else [*laughter*], was I guess **look at the article and identify terms in it that you would like to have demystified So what I'd like to do first is just collect those terms, from table to table, just call out these terms that are in this article. You know, inflation, um, and so forth.**

Audience: Trade deficit

Audience: Capital gains

Audience: Relatively stable inflation

Audience: Account deficit

Audience: Brookings Institute

Audience: Rate of productivity

Audience: Experts [*laughter*]

Audience: Federal budget surplus

Audience: Recession

Audience: Personal savings rate

Audience: Gross domestic product

Audience: Trade imbalance

MN: Add trade deficit.

AS: Anything else?

Audience: Prosperity

AS: That's a good one, and savings.

Audience: Tax incentives

AS: Unemployment? Especially…yes, unemployment definitely.

Audience: Public sector

AS: And did we have budget surplus? Yeah, federal budget surplus. Okay, so let's take a look at these, and make sure that if you said something, we put it up there.

MZ: 2, 4, 6, 8, 10, 12, 14, 16, 18, 19!

MN: Actually, I think we can grab a whole bunch of them at once if we go back to that third paragraph [*laughter*]. If we start with the third paragraph, you'll notice that he describes what constitutes a fundamentally solid economy, and a lot of the words we've mentioned are in his description. A fundamentally solid economy: low unemployment, relatively stable inflation, rising wages, and the benefits of continued advances in technology. And I guess Michael, I want to ask you to do two things. One is, I suppose we need to define those terms in there that aren't clear, but also the linkage between them, and how do they work together within the limits of this kind of perspective on the economy. How do these work together to give you what is described as a fundamentally solid economy? The clock is ticking. [*laughter*]

MZ: Well let's talk about what's the purpose of the economy. Besides to produce and distribute. The purpose of this economy is to make profit for the capitalists who own the businesses. That's the purpose. If something contributes to that purpose, we have a solid economy. If something is detracting from that purpose, we have a problem. So, what is on this list? The word profit doesn't appear on the list, it's kind of sort of underneath all of this, which is part of what I think…what's not here, is that. So, if we look at these terms: low unemployment. Well unemployment—the unemployed are those people who don't have a job but they're actively looking for work. If they're out of the labor market, out of the labor force all together—they're at home, they're retired, they're taking care of their kids and they don't work, or they're in school, or they aren't working—they're out of the labor force, they're not unemployed.

Audience: So, the guy on the corner begging for coins is not unemployed.

MZ: Is not unemployed…

Audience: Officially.

MZ: Well, he is not unemployed unless he's officially looking for work…

MN: Through unemployment office…

MZ: Through unemployment office, or if the department of labor finds him and asks him in a survey, "What did you do last week?" Now, I'm not unemployed or begging for coins doesn't count.

Audience: So, unless you're registered with the unemployment office or some sort of government organization that will help you find a job, you're not on the radar screen.

MZ: No, because the department of labor has ways of surveying people who are not…They don't get to them only through unemployment offices.

Seth Ackerman (SA): If you're on welfare and the labor department calls you and says, "What did you do last week?" and you said, "Well, I'm on welfare, I didn't work, I was taking care of a kid," you're not counted as unemployed.

MZ: You're not unemployed

Audience: What about prisoners?

SA: Prisoners are out of the labor market.

MZ: Usually, out of the labor force, the civilian labor force. The military isn't typically counted

Audience: Prisoners often work, right?

MZ: Uh, sometimes, but they're not counted in these numbers.

Audience: If you've been looking for work, and you've kind of given up, you can't find it, and they happen to ask you at that point…

SA: You're a discouraged worker.

Audience: You're a discouraged worker, right, you're not aiming for…

Audience: That's an official term?

MZ: Discouraged worker, discouraged worker is an official term.

Audience: I feel that way all the time. [*laughter*]

Audience: Is there a discouraged worker rate?

MZ: Yes. The department of labor keeps that number, publishes that number, and although it's not usually in the newspaper every month like the unemployment rate is, it could be cracked. Also, if you've worked for one hour this week, you're employed.

AS: Now what's the relationship then between low unemployment and stable inflation?

MZ: Stable inflation is a peculiar…they don't mean that. What they mean is stable prices. Inflation is where the general price level goes up, not just the price of one item or another item. But generally, the things that people buy when those prices go up overall; that's inflation. Stable inflation means that it's five percent every year, and that's a stable number. That's not what they mean. What they mean is stable prices, so that there's neither inflation nor deflation, when prices are going down. Now what's the relationship between those two? No one really knows as a tactical matter. It has been proposed that if there is a high level of employment, low levels of unemployment, tight labor markets—that's another way that that's sometimes referred to—tight labor markets mean it's not easy to find somebody to come work for you, because a lot of employers are looking for workers; most workers are already working. Full employment. It is long been thought by economists that when that happens, prices tend to rise, so that if you have full employment, inflation tends to come with it, because prices will rise when there is more demand for product than there is the ability of the market to supply that product.

Audience: And why does demand go up with rising employment?

MZ: Well, if everybody's working and people have incomes, they go with their incomes and try to buy something. And if not enough can be produced, because factories are trying to hire people and service industries are trying to hire people, but they can't, because there's already full employment, so that there isn't an easy way to attract new workers to you, because the pool of available workers is very small, then you can't meet your demand, and so on the product side, you're likely to just raise your prices, or prices will go up in order to choke off that extra demand, so that inflation is said to be linked to unemployment through that kind of a mechanism.

Audience: …that means that all work with advertising and all this stuff?

MZ: Well part of this thing is why do people…the big problem here is that there's a real low savings rate. People aren't saving. It says here rising wages. This is great. We have rising wages. I just want to say a couple words about that, and then Seth will have some stuff to say about this question. Wages in the last three years have in fact been going up. Real wages. Now when I say real wages, that means wages adjusted for inflation—what your money can actually buy. Your purchasing power is included. Beginning in 1972 until 1996, the real wages of American working people have gone down. They went down about 25 percent in real terms in that 25 period. It was a very marked decline. Meanwhile, your output, your productivity, what workers could produce, kept going up. So, what was happening was workers were producing more, they were getting less, so where was it going? Can anybody guess? Workers are producing more; they're getting less; where is it going? It's going to capital; it's going to their employers; it's going to the businesses. And we've seen with that a big increase in inequality in the US economy. Where the wages of the CEO's and the profits in the economy have gone up dramatically and the wages have not kept pace. So where in 1980, the standard CEO made 40 times what a worker made, in 1993 it was 141 times, in 1998 it was 419 times, last year it was over 500 times.

Audience: Is there an inequality rate, measure?

MZ: Yes, yes there is. It's called the Gimi coefficient and…

Audience: The G?

MZ: J, no G-I-M-I, after an Italian economist who worked it out. G-I-M-I coefficient, and if you really want to give it out as a measure I'll tell you. But the point is that the inequality that has developed in this society has been enormous relative to what it has been in the past, and so when they say rising real wages, even the last two years of the Clinton boom, real wages might have gone up for workers, but the CEOs wages have gone up even faster so that inequality has continued to increase even after the Clinton boom. Actually, more quickly. There's been more rapid growth of inequality in the last five years than all through the Reagan years. So, when they say rising real wages, you have to be careful about that, because it's not just that that you want to think about. You want to think about what is that in relation to what the capitalists are getting. So, Seth also has some things to say…

SA: I wanted to pick up on something that you're talking about when…the relationship between unemployment and inflation is something that's been a major theme in economics coverage, and you see it every time new data comes out about the economy from the government, about manufacturing, about unemployment, job claims. It's always a big issue with the stock market and financial markets, because the question is, is unemployment getting too low. At least that was what the main concern was for a long time, and I think it's, I'm concerned it's going to continue. But the way it was always covered, and this is an idea that was really dominant up until just a few years ago, was there was this idea, and I think Michael touched on it just a little bit, there's this idea among economists that there's a natural rate of unemployment or the more technical term is a non-accelerating inflation rate of unemployment labor. And the NAIRU…

Audience: Say it again, non…

Seth: Non-accelerating inflation—it's a beautiful term—non-accelerating inflation rate of unemployment. And the NAIRU was held for many years by economists, and this was a consensus that existed throughout the mainstream economics profession, not every economist agreed with this, and you can find, there were rantings on the internet if you wanted to [*laughter*]. And this rate was held to be for many years, somewhere around, well it'd vary, but usually it'd be something like six percent, six and a half percent, seven, seven and a half depending on…

MN: Whatever the prevailing rate was that they seemed unable to deal with.

SA: Exactly. Depending on how sadistic the particular economist was it could be six percent, seven percent, whatever, and the idea behind this was that if unemployment fell below that rate, whatever that magic number was, then inflation—for the reason Michael described without the imbalances between supply and demand—inflation would not only go up, so prices would not only start rising at three percent, they would rise at four percent. But they would rise, they would keep rising, inflation would keep rising: it would go from three percent to four percent to five to six, and there would be no way to stop it.

MN: And before you know it, you would have the Weimar Republic.

SA: Exactly, and we'd have fascism and civilization would fall. Which really is not far from what the theory is trying to convey. And so, inflation would keep going up perpetually, until you had this chaotic situation, until unemployment was brought back above the natural rate, and then if you bring unemployment above the natural rate, then inflation would start to fall. And the only way you could keep inflation stable, so that prices rise at the same amount all the time, would be by having unemployment at this natural rate, which is held to be six percent or seven percent or whatever it was.

Audience: So, you don't think there's anything natural about it?

SA: Nothing natural about it, and in fact the theory has now been, among even the mainstream economists who once championed it, completely discredited by the last five or six years of experience. Because for years, of course, unemployment didn't fall below that rate for a sustained period of time. For the last twenty, twenty-five years, unemployment was at a relatively high level compared to what it was before, so we never got a chance to test the theory out. Unemployment was never below that level for a long time. But for the first time in years, because of what the Federal Reserve was doing—lowering interest rates, and it wasn't cutting-off the boom as it had done in previous circumstances—unemployment fell below the rate. And immediately everyone said, well now this is the end, inflation is going to start rising, the economy's going to go—didn't happen.

Audience: You just said Federal Reserve.

Audience: Yes, and interest rates…

AS: Interest rates and some of the things that aren't up here but ought to be. So that's great, let's just back up a little and pick up some of those terms and some of these others.

Audience: But before we start, can I ask, when we're talking about economics and these theories, are these American theories or international theories?

SA: Oh, they're pretty much held by…I mean, these ideas tend to start with America, but you know, the establishment mainstream comments all over the world.

MN: This is kind of the mainstream of economics that you would learn…If you went to school in Japan this is what you'll learn.

Audience: Okay, that's what I want to know.

MN: Okay, but I just want to put a question up first I'm going to go back to, because the phenomenon that we're experiencing of really low unemployment and stable prices was unexpected. Except that I think we can explain why that happened. And it does have to do in fact with trade and the strength of the dollar and in proportion to…I just want to put that as a question for us to address: how come it's possible for us today to have low unemployment, stable prices, relatively stable wages, at least for working people, and not have the inflation we were taught in school we were supposed to get?

SA: Well…

AS: I don't think you should answer that yet because I think…I mean I don't know. Maybe a lot of people took their macroeconomics and remember it, but I'm getting a little bit confused. I understood the definitions before, but I haven't quite digested the application quite yet. And there's still all these other terms that we put up here, and that you've invoked, that I think need a little air around them. So, can you hold on to that question?

MN: I simply put it out into the universe. [*laughter*]

AS: So, let's go back if we might to the Federal Reserve: who are they, what do they do, who appoints them, who elected them…

Audience: And will Alan Greenspan ever be replaced? [*laughter*]

AS: Right, and then we can talk about interest rates and the relationship of interest rates to some of these other factors, and then we can get back to trade and savings and some of these terms. So, who's the Fed?

SA: The Federal Reserve is the central bank system that we have in this country, which means it's the quasi-governmental, really governmental institution that's in charge of controlling how much, and I hate to keep proliferating these terms, but how much liquidity is in the banking system, which means that all the banks in the country or almost all the banks you go to in the country to have a checking account or whatever, are linked to the Federal Reserve. They pool their reserves their excess cash they keep on hand. And that amount of excess cash, which allows them to lend money to businesses and keep economic growth going, that amount of cash, those reserves are controlled, regulated by the Federal Reserve, which can increase liquidity or reduce liquidity. When it increases liquidity, it, the economy expands—more companies lend, more businesses start, they hire workers. When you reduce liquidity, the reverse happens. And when people talk about the Fed raising or lowering interest rates, it means how much liquidity, how much extra juice is it pumping into the system to stimulate the economy. So, when the Fed lowers interest rates, it's adding liquidity.

Audience: Whose juice, is it? Is it the individual banks; is it actually like, people's money; is it the government's money? It's like, whose money is it?

Audience: Are they printing it?

SA: Right, well the Federal Reserve is the only institution in the country, in any country, that has the license to print money. It creates money out of thin air…

Audience: No longer based on the gold standard…

SA: No, no longer, that's ancient history. And every county, most countries in the world now have central banks, they have this type of assistance to regulate the banking system, and by doing that, they can regulate the expansiveness of the economy: how much investment is going on, how much economic growth is going on, how low unemployment is. The Federal Reserve, the question, "Who elected them?" is, I think, the right one to start with and the answer is, nobody elected them. It's an unelected body, even though, as is often said, Alan Greenspan is the single most important economic policy maker in the country. He's not elected: he was appointed by the president. And moreover, the committee that sets monetary policy, that adjusts that liquidity lever I was talking about, that committee, that Federal Reserve committee has twelve members, and five of them are appointed by local reserve banks that essentially are owned by private banks. So ultimately almost half of the committee that sets our monetary policy, which is this liquidity thing I was talking about, almost half of those officials are appointed indirectly by the nation's private bankers.

Audience: What does it mean when they say, like you know, Alan Greenspan lowered the interest rates one percent today. What does that mean and what is the exact fact on houses or…

MZ: Well, the Fed…the Federal Reserve Bank is called the Fed. That's, it's sort of a popular, affectionate name. It's known as the Fed. And the Fed is a bank. But you and I don't have money deposited in it; banks have money deposited in it. Now you may, or well, let me ask you this. How many banks are there in the United States? You know, Citibank is one bank with lots of branches. Chase is another one. How many banks are there in the United States today? What would you say?

Audience: 70

MZ: 70 banks.

Audience: 200

Audience: 130

MZ: 130? How about 9,500 commercial banks and another 1,500 or 2,000 savings and loan associations so we have a total of 10,500 or 11,000 banks in this country— not branches, banks. Very highly concentrated. These banks are measured in their size by what their assets are. How much deposits they have. And those banks at the top of that pyramid—Citibank, Chase, Bank of America—very highly concentrated. The top 25 banks have over half the assets of those nine and a half thousand banks in America. Those are the banks that control the Fed. Those are the banks that control the monetary policies and monetary authorities in this country. There's a very interesting, very important book about it, and you know, what kind of professor doesn't say read the book, uh, *Secrets of the Temple*, very nice book, not a bad title either. *Secrets of the Temple* by William Greider. A very, very, very good discussion on the operations of the Fed—its culture, its relationship to the banking system, all of that. So, when we talk about the Fed, again it's not just a mechanism. You say what's the impact of the industry on, and I think you said what exactly, precisely. But I have to tell you that economists not only don't know precisely, they don't have any idea.

Audience: So, what does it mean when we read in the paper that they dropped the interest rates? We don't know what that means…

MN: There are three or maybe four levels of interest rates when you think about it. There are the interest rates that we as consumers pay when we borrow money, whether it's through the credit card, or whether when we go to the bank for a mortgage, or we go to the bank to finance a car, or something like that. That's one level of interest. And the rate that businesses pay, when businesses borrow money to expand the business say.

AS: Which is what's called growth.

MN: Which is what's called growth. So, there's an idea that the higher interest rates are, the more discouraged you would be from borrowing money. So, if interest rates are high, you're less likely to borrow money to drive a car, it's less likely to borrow money to build additional manufacturing capacity, which means that they won't be hiring additional people to work in that plant, and that will have an effect on the economy. So that's one level of interest rates, and it's the one we're most familiar with.

Now the next level of interest rates are interest rates that banks pay each other when they run out of money. You know, banks lend out money and banks have deposits, but sometimes the demand for loans or the requirement that a certain amount of the deposits be literally kept as cash, you know, kept in the bank as reserves, they fall short of that benchmark, and they have to borrow money. And the first place, they'll go is to other banks, and that's the federal funds rate. The interest rate that banks pay each other when they borrow these very short-term loans. Now that is an interest rate that tries to affect…we'll talk about how they do that in a moment. The third interest rate is the interest rate that the banks pay the Fed when they borrow from the Fed. Sometimes banks need money, either to meet reserve requirements or to lend money out, because they're short of what the demand for loans are. They're so desperate for money, and they can't get it from each other, so then they're allowed to get it from the Federal Reserve. And that's the discount rate, it's an interest rate that banks pay the Fed.

Now when they say in the press that the Fed has increased or decreased the interest rate, the Fed has taken a set of actions intended to influence either the discount rate, the rate that banks borrow from the Fed, and obviously the lower that rate, the more likely, the easier it is for banks to borrow; they've either affected the discount rate, or they've tried to affect the federal funds rate, making it harder or easier for banks to borrow from each other. And if the rate goes down, it's easier for the banks to borrow and have money to lend you, so it's easier for you to borrow money.

AS: Okay does the Fed ever set any kind of rate that directly affects mortgage rates or…

MN: It only does through its impact on either the discount rate or the federal funds rate. Now the discount rate, the Fed can affect simply by announcing or increasing it or decreasing it. But they don't actually do that very often. The way they most operate to affect interest rates is by trying to affect the federal funds rate, the rate at which banks borrow from each other. And they do that not by fiat, not by announcing okay, tomorrow all you guys are going to pay eight percent instead of seven percent, but rather through what's called open market operations. The Fed controls treasury bills and notes, government bills and securities, that is IOUs that the government issues to holders of these securities who buy them or sell them…I mean there's a whole market for government securities. So, the way the Fed tries to influence the federal funds rate is by selling securities through these open market operations. When they sell securities, they draw money out of the economy. But unlike a bank when it makes a loan, they're putting money into the economy: when the Fed sells securities, the money comes out and it's kind of like into a black hole; it doesn't go back out into the economy.

Audience: What's a security?

MN: It's a promise to pay you a certain amount of money…to pay back what you've lent plus interest. It's a promise.

MZ: It's a way the government borrows money: when it borrows money, it issues these securities which are promises to pay the money back with certain terms.

SA: But I think just to simplify it, and that's a good summary of how it's done, I think that some of the interest rates—the discount rate, the federal funds rate, and the rates that are lent by banks—I think that luckily for us, all these interest rates are related, so you don't really have to keep track of them all to get a general picture of how this stuff works. The point is that all these interest rates are just different prices for money. And the more money there is—this is a bit of shorthand—the more money there is in the banking system, the bigger the supply of money so the price of money falls.

MN: The more liquidity.

SA: The more liquidity so the price of money falls. When there's less money in the banking system, and money is scarcer so the price of money rises, and the interest rate rises.

Audience: So, when Alan Greenspan is setting the interest rates, and everybody is poised to know whether he's going to drop it a millionth of a percent, he's measuring the liquidity that the Fed has control in the market at that time?

SA: He's adding liquidity or taking it away.

AS: And explain again what liquidity means?

MZ: Okay now, let's just or look at the…

Audience: But could that be like a simplistic, just at least a simplistic way to begin to think about this?

MZ: Yeah, except one thing that somebody said, do they just print it, the money; one thing I think is helpful to understand is just what is money. Now, you and I think, well money is the green stuff. You know, I've got it in my pocket; you've got it in your wallet or purse; and that's true. The bills, the currency we're carrying around in our pockets, that's part of the money supply. But that's not most of it. Most of what is called money is called demand deposits; what money you have in your checking account, where you can just demand that the bank pay this money to so and so, and if you look at your check, it's basically a letter. It's got a date on it, it's got a letterhead, and you're saying, "Dear bank, please pay Joe Blow, Jane Doe, Acme Corporation this amount of money," and I'm going to put it in numbers and write it out in words, and I'm signing it. And that's a letter to your bank. Your check is like a letter, a form letter. And the money you have in that checking account that you can demand be paid, and the bank has to pay it when they get that letter—that's part of the money supply too. What liquidity means is either giving people more cash or more likely, more money in their checking account by making loans, by giving people money against which they can write checks. And that liquidity can be created through the banking system not so much by printing money and flying in airplanes and dropping it down or sending it out in trucks, that's not how it's done. It's done through authorizing banks to make loans, creating new checking accounts or adding money, credit lines, those kinds of things, although not credit cards, not the line on your credit card, that's a detail— basically it has to do with checking accounts.

AS: So, does that mean that the money that's being exchanged is really a fiction? I mean is there enough cash in the world, in people's wallets and purses, to match the amount that's going around in checking accounts?

MZ: No, there's no relationship between those two. How could there be no relation? Here's how. Because when you got paid, you got paid by check so you put it in your checking account, and when you paid Con Edison, you wrote them a check, and when they got that check, they put it in their checking account. And then what did they do? They wrote a check to their workers, they didn't give their workers a cash packet at the end of the week, they wrote them a check. Nobody saw cash. Nowhere in that. And actually, there is no necessary relationship whatsoever between the amount of money a person has or that exists in the economy in terms of checking accounts and the amount that exists in terms of cash money. Now obviously, some seasons you want more rock and round money--it's Christmas time and you're taking out cash and walking down to the store and buying your Christmas presents. Sure, there are fluctuations up and down in the way people have their money. But there's no necessary relationship between cash as currency in circulation and checking accounts. Basically, what the Fed is doing when it's engaged in all these manipulations to monitor the money supply and the checking and the interest rates and all that, what they're doing is manipulating the amount of demand deposits, checking accounts, the money that is in that form, and I think it might be helpful to you to keep that distinction so you won't be wondering, well where's the money?

SA: It makes a lot more sense that you think because at any given time, you think of all the money that you have, most of it at any given time is probably not in the form of cash, it's in your checking account.

It's just the same for the whole economy as a whole. Most of the money supply that people have is in their checking account not in their wallet, because you don't carry around…

Audience: Is there a relationship between what the Fed is holding in reserve and how much of these credit lines, or these checking accounts…

MN: There's a relationship between what a bank holds in reserve and what that…how much of the credit lines and loans there are. I mean, when you think about it, you know those films where you see pictures of runs on a bank; everybody's running into the bank, I mean why is it a problem? It's a problem, because if everybody in a bank wanted their money in cash right away, the bank wouldn't have it. The bank's only required to keep a certain percentage, I think it's at the moment it's ten percent…

Audience: That's what the Fed says?

Audience: Does that go back, does that same model hold true for the Fed?

MZ: The Fed has no reserve requirement, the Fed, no.

Audience: Why is it called the Federal Reserve then?

MZ: Because they hold the reserves of the member banks.

Audience: You know how you were explaining the relationship between unemployment and inflation? What's the basic, fundamental theory behind raising and lowering interest rates, in terms of inflation and unemployment?

SA: That's a very good question, because I think that gets to the heart of why what Alan Greenspan does is so important, and why it's so mystified, and why there's a lot of confusion about why it's important. As I was saying before, people who have a lot of money, rich people who have a lot of money in stocks and bonds, they don't like inflation, because when prices rise fast, it erodes the value of the money that they hold. So, they want a low level of inflation. And it's long been known that when unemployment is low, when labor markets are tight and everybody has a job, it makes inflation higher. Now what I was saying earlier about this theory that if unemployment's low, inflation gallops out of control, and eventually we wind up on the verge of fascism, that's a different story. That's a much more extreme version of the theory that I think one could argue was kind of concocted to make it seem that you couldn't have low unemployment, you had to have higher unemployment.

But it is generally true that when unemployment goes lower, inflation goes a little higher and there's a trade-off. And in that trade-off, people have different interests. People who work for a living would rather have lower unemployment, and if you have an extra percentage point of inflation, that's really not a big deal for people who work for a living. But if you have a lot of your money in stocks and bonds, then the unemployment rate is really not much of an issue for you, because you're probably not going to end up being unemployed, but the inflation rate is very important to you, you want inflation to be very low.

AS: So, all this obsessing over inflation is just really a much bigger concern to that small percentage of people who have lots of lots of money, and it doesn't really matter to working people so much?

SA: Exactly.

Audience: Doesn't it matter to pensioners?

SA: It does, but generally the economic conditions that happen when you have higher inflation, you know, higher inflation tends to happen when unemployment is low and the economy is expanding, and that's good for pensioners. I mean, if you're on social security, your social security benefits are indexed not only to inflation but also to wages. So, if wages grow by a total of five percent, three- percent real wages and two- percent inflation, then your social security benefits go up by five percent. And that idea that pensioners and people with social security benefits are devastated by inflation, I think is really kind of one of the propaganda causes of those who've been pushing over the last twenty or thirty years to drive inflation down to zero.

Audience: Seth, except there's one thing though. The propaganda as it were, when you think about the Weimar Republic, which is part of the propaganda, but it really did happen that bread cost a month's salary, so that is related to rampant inflation, and they just did not keep up with that, and so there is some reality to that scare.

SA: Oh, there's a reality to the idea that you don't want inflation to be…you don't want hyper-inflation. I mean I know in the Weimar Republic you literally had ten thousand or twenty thousand percent inflation. That is absolutely no relationship…that's like the relationship between you have a cold so it the same as getting cancer, so it's a totally different thing, and it wasn't caused by the same phenomena. The Weimar Republic didn't have ten thousand percent inflation, because their unemployment rate was really, really low [*laughter*]. So that's how you can separate out the propaganda.

AS: So, did your question get answered?

Audience: It didn't get answered.

AS: Okay, would you rephrase, would you state the question again?

Audience: You just basically pointed out the connection between unemployment and inflation in a simple way although it's not a simple… though it's not a simple vision. Could you simply explain the connection between what Alan Greenspan does with the interest rates and the issues of inflation, unemployment and so forth?

SA: Okay, when unemployment is getting too low for the tastes of those who tend to control the Federal Reserve or have influence over its policies, when unemployment is getting too low, and they think there's a threat of wages rising too fast, or inflation being too high, then Alan Greenspan can raise interest rates, in other words, taking liquidity out of the system, making it harder for banks to lend money to businesses, to start businesses and hire workers, and to make investments, and that'll slow down the economy— it'll slow down the pace of job growth, it'll raise unemployment. And over 99 percent of the time, when the Federal Reserve raises interest rates to slow down the economy, that's it's concern, that unemployment is too low.

MZ: Well, the most recent thing that Greenspan did was to lower interest rates by a point, and not to raise them. He'd been raising them last year, and he surprised everyone, what, two weeks ago, when he dropped the one point. So, what was that all about? That was about the general buzz going around Wall Street, oh we got problems, the market is kind of stalled, the NASDAQ has lost a lot of its value, the high-tech stocks, there is a problem that maybe there's a recession beginning and the recession means that the economy isn't growing very fast, and it isn't maybe even growing fast enough to absorb the new workers that are coming into the labor force, so unemployment might go up a little bit. And the profits might not be very accessible so businesses may have to lay people off. It's not a real depression where there's food lines three blocks long or soup kitchens on Main Street America, but it is beginning to look like a problem. So, what Greenspan was doing by dropping the interest rates, was trying to give a signal that banks ought to be a little bit more forthcoming with loans, that it should be a little bit easier for people to buy a new car, because then the rate you have to pay for your car loan, and in general giving the stock market and people who are investing in that way some idea that he is concerned and is going to be taking steps to secure the commission for profitability for American businesses.

MN: But don't be misled into thinking that this is a process that is very finely tuned and that the outcome of the actions of the Fed, whether to raise or lower interest rates, is a foregone conclusion…that it's always going to work the way he intends it to work. He can't force the banks to lend money and the example, of course, is the case of Japan where interest rates are incredibly low, and it still can't get that economy going, and during our own depression, interest rates in fact…

AS: What does it mean for an economy to be going, and what does it mean to have a growing economy?

SA: Well that gets back to one of our variables up there. GDP, which is the same thing as, I think you might have also written gross domestic product, which is the same thing.

Audience: Could you speak up a bit Seth, it's getting really noisy out there.

SA: Sure. GDP is the operative term when you're talking about economic growth. Gross domestic product. Gross domestic product is a measure of the size of the economy, and when gross domestic product rises, that's when the economy grows. That's what they're talking about when they're talking about economic growth. And gross domestic product measures the total value of all the goods and services produced in the borders of the United States. That's what gross domestic product means. It's a little bit different than gross national product which means all the goods and services produced by labor and capital that's owned by Americans, which is a slightly different definition, but they end up being almost the same usually, so it's not something to keep track of very closely. But GDP is the value of all goods and services produced in the United States in a given period of time, in a year.

MN: And that includes good goods and bad goods. It includes tobacco, it includes, does it include illegal drugs…no 'cause they're outside of the market, right? Um, it includes the production that results in pollution. Any good that has an exchange value, an exchange in the marketplace, is good for the economy by this definition.

Audience: If something is produced in Mexico and sold here, what part of it…

MN: It's the value that's added when it's sold here that goes into the…

SA: If a product is produced in Mexico and is exported to the United States, we import it, it doesn't count in the GDP.

AS: That means Nike is part of the GNP?

SA: If Nike has a plant in Vietnam, and it makes shoes, and the shoes are exported to the United States, the value of the shoes aren't counted in the GDP, although—this is getting kind of detailed, you don't really need to remember this—but the value of the profits that Nike makes from that, because Nike's an American company, Nike's workers aren't American so their wages aren't counted in the GNP, but the profits of Nike, being an American company, are counted in the GNP—gross national product, the income of American nationals including Nike.

Audience: What about multi-nationals in the USA? Profits are going to a company in another country.

AS: Multi-nationals that are operating in the US.

SA: If Toyota has a car plant in South Carolina, which I think it does, the wages of those American workers are counted in GNP. I believe the car, the value of the cars is even counted in the GDP, because it's produced in the borders of the United States. The profits though of that Japanese company, because they go back to Japan, aren't counted in GNP.

Audience: How is the current account deficit a good thing?

AS: Okay, that goes back to one of these terms, the current account deficit. What is it and why is it a good thing?

Audience: A good thing, apparently in this article, it's a good indicator whether…how is it positive? Deficit sounds negative to me.

MZ: Well, GDP is this sum of all the goods and services produced in the economy. If we are talking about not domestic but foreign exchange, foreign trade, we have accounts that track the volume of that trade and the flow of that trade. There are three different pieces of the trade accounts. One is called the current account, which has to do with trading goods and services. Then there's the capital account, which has to do with the flow of investment, and then there's the official balance transactions that make the accounts actually balance, because the amount sold has to equal the amount bought, the amount exported has to equal the amount imported but not in any one category, alright? So, you can have a deficit in one part of the trade and a surplus in another part of the trade. So, if we talk about current account we're talking only about the flow of goods and services, so if the US is importing cars to Japan, that goes into current account. If the US is importing the service of a shipping company from Panama, where we're shipping goods abroad, but we're paying a shipping company, and we're transporting our goods on their barge. That's an import of a service to the United States; that's out of the current account. If somebody comes from Germany to the United States and stays in the Hilton hotel there, that's a US export even though it never left the country, because an export is anything that causes a demand for your currency on the part of some other. So that's the current account. And to say we have a current account deficit is to say that we export to other people less in dollar value than we import from other people.

Audience: Is that the same as the trade deficit?

MZ: Well, see that's a sloppy term. We can talk about the current account, and look at its deficit or surplus, and that's goods and services. The reason why the trade account is a sloppy term is because it's unclear if it's talking about only goods and services or it includes also all the capital so it's all capital accounts, what's on the capital account: two different kinds of investment. There is what's called direct investment, which is when the American company goes and buys another company overseas. Or builds a factory. When Mercedes comes and builds a big Mercedes plant in Alabama, that's German investment into the United States. That doesn't show up on the current account, it shows up on the capital account. All right? That's direct investment. There's also what's called portfolio investment. Portfolio investment means buying stocks and bonds. So, if an American individual or company or bank buys a stock in a German company, that is an international transaction on capital account having to do with portfolio investment. If a Japanese bank or Brazilian company buys an American government bond, that shows up on the capital account, okay? So, when we say we have a deficit on the current account, it means we are importing more that we are exporting in dollar value, not in units. And then that has to get paid for somehow. Well how does it get paid for? It gets paid for by American businesses or American securities coming to the United States buying American stocks, bonds, government bonds. That's part of the balance of payments overall and you get into all kinds of ideological and political questions about is it good to have a deficit or not and so on, which is a separate question, but does that help?

Audience: Yeah.

Audience: But when they use the phrase trade deficit, this sloppy phrase in the paper which you see all the time, are they keeping it sloppy to mask a certain agenda or…

MZ: No, no, it's just sloppy.

AS: Let me make a suggestion. I'm being mindful of the time; we're going to catch a plane exactly an hour from now. What I'd like to do is just quickly go through the rest of this list and see if there are some terms we never got to that we need to get to, and then go back to this article, and try to understand a little bit more what it's argument is, and that will then make a good segue to Seth giving us a little more concrete media analysis about how these things are being described to us and what's missing, though I would like us to take a few minutes and talk a little about the stock market, which is another huge subject. Why don't we, actually why don't we do that first. Let's see if we can do seven minutes or so on the stock market, and then we'll come back to these terms and the article and segue into media analysis.

MJ: Can I make a suggestion? As much as it is possible, again the focus of this particular roundtable is domestic economy as opposed to global economy. I know it's hard to separate but if we could try to keep things specific to this and circle certain terms that may be more related to globalization…

AS: I don't think we're talking about globalization here.

MZ: Okay, let me do something with this. Seth talked about this NAIRU, now I have to say—natural, uh non-accelerating rate of unemployment—now I learned economics a long time ago, almost forty years ago, at a time when the Kennedy administration was in and there was a great deal of optimism about the ability of Keynesean macroeconomic policy to solve the problem of unemployment forever. Now I grew up in Detroit, which was a city plagued by unemployment—up and down, up and down, up and down—and anybody who could tell me that unemployment was a thing of the past, I wanted to listen to what that person had to say. And so I ended up studying economics, just on that. And nobody had the faintest idea that there was such a thing as a natural law, rate of unemployment—there was full employment, unemployment was three percent. End of discussion, anything more than three percent was a policy failure, and actually I think in the sixties the unemployment rate was about three and a half to four percent, more for various reasons.

But my point is that these terms—what's full employment, what's natural, what's not natural—these things aren't written in stone and aren't basic science like what's the gravity. This is politics, this is ideology, this is class power. What's going on is the capitalists have power, and they want to keep power, and they want to organize the way we think to limit our understanding of that basic question: power.

So if we're talking about monetary policy, why, where did the Fed come from? Alan Greenspan is the most important figure: not forty years ago the head of the Fed was some, you know, reasonably minor banking functionary. And that has to do with the change in the way that power is distributed in the society that the banking sector and the monetary and financial sectors of the economy have gotten a lot more power now. There's nothing in the structure of the economy that requires that; there's nothing about full employment or unemployment or inflation or any other thing, any term that's on this board, that tells us why Alan Greenspan is so important. He's an important figure, because there's this constellation of power relations which have made monetary policy where it's at instead of taxes, instead of government spending, instead of what's generally called fiscal policy as against monetary policy. Fiscal policy used to be the main avenue by which economists thought we could influence the economy, fiscal policy is controlled by congress; it is more accessible to democratic control.

MN: That's about whether the government spends more or less, taxes more or less…

MZ: Or who it taxes, what it spends money on, what the aggregate level of expenditure is. What has happened in the last thirty years, twenty-five years, is that there has been a systematic pushing aside of taxes and expenditures as the basis for government intervention into the economy to secure the public good. We're being told that the government has only one role—to balance the budget and to shrink. And every other aspect of control of the economy is being given over to the monetary authorities, which means to an undemocratic oligarchy of bankers who control that sector of the economy. And there is nothing in the technical literature of economics which says that that is correct, that it's necessary, that it is theoretically competent, none of that.

MN: So Michael, you're saying that we should not believe George Bush [*laughter*] when he says we need a three trillion dollar tax cut, in order to prevent this recession.

MZ: You know, I don't even know that there is such a big recession and that this three trillion dollar tax cut or whatever [*talking*]…big numbers, big numbers. And you know Al Gore during that campaign was trying, feeble son of a bitch that he was, to make the point that that tax cut was tacked up for the top one percent, he kept saying that. Somebody did a survey, very interesting—they went around the country and they asked people, "Al Gore says the tax cut is for the top one percent. Are you part of that top one percent?" You know that 19 percent of the American people feel that they are in the top one- percent? [*laughter*] Nineteen percent! Now, what does that tell us? That tells us that people have no idea how rich the rich are. People have no idea how much money there is on Wall Street. And how much power these sons of bitches have.

AS: Okay, Wall Street. I know we could talk for hours just about what's Wall Street, what's in control of all of this, why is Alan Greenspan setting interest rates based on what's happening in the stock market and so on, but can we just do three minutes on the stock market and how, what kind of role…

Audience: Why when I turn on the radio in the morning, the first thing I hear from NPR is where the Dow is and where the NASDAQ is, why should I care?

MZ: I want answer that in a way that segues right into Seth. You turn on WABC or WCBS or WINS and you get this. Why? Because where does WINS get its money? It gets its money from advertisers. If you're an advertiser, you want to advertise your product to have a lot of money, so you want the programming to attract people who have a lot of money. The people who have a lot of money have stocks, and they want to know that money.

Audience: But a lot of people, I don't understand why you're saying this, because it seems to me that since there's online trading and there's this fascination that you've described with the market, that zillions of people that we know who are not in the super-rich, count like a thousand bucks in such and such a place. So, you're making it seem like, it's the rich or us, and I don't think that that's my experience. People that we know are now walking around, wow, like I got money because I invested in Snapple…

MZ: Or wow, I got wiped out, because I invested in…

Audience: Exactly, but I'm not saying this to hassle you, but I just feel like it's not jiving with my experience in the last fifteen years.

MZ: More than half the people in this country have no stock in any form whatsoever, neither in their own accounts nor in pension plans. They just, people don't have…

Audience: I believe you but I'm just talking about…we live in this…we live in New York, we know a lot of middle-class and upper-middle-class people who have jobs where they have extra income, and they're like, "What am I going to do with it?" and now they invest it in the stock market. So it's like, I think, isn't that part of the reason that people want to know what's going on?

MZ: That's right, but I think what you'll find is two things. That the people that we're talking about, the professionals in New York and these upper-middle-class people, have a very high, relatively good position with respect to the general population. That's number one. And number two, have discretionary income and are the target of advertising, which is my point that the news is there but it also…*The Washington Journal* had an article about three years ago about small traders coming into the market, and you know what a small trader is? A small trader is somebody who trades less than ten thousand shares at a time. If you are trading less than ten thousand shares per transaction, you are a small trader. Now, how big a trader are you and your friends? Miniscule.

Audience: No I totally agree, I'm just saying…I'm asking questions because I feel like…

MN: But you're right, you're right, it's a very important part of the creation of a sense…You know there was a time in the nineteenth century that Abraham Lincoln gave a talk and he said, "In this country, you come here from some other country, you go to work for somebody, you save your money, and then you leave and start your own business or buy a farm, and anybody who doesn't do that is either reprobate or a singularly inept, incapable" and so on. And there was the idea that we could all go out and start our own little businesses. Now at the turn of the century, with the rise in corporations, it became less and less possible for most of us to do that. And one of the ways we're kept part of feeling we're part of this economy is through a real effort to democratize stock ownership. And so going back to the nineteen twenties, the idea was to get all of us invested in our little way in the market, because when you're part of the market, who are you bonding with? You're bonding with Bill Gates. You're bonding with Citicorp. You're bonding with Warren Buffet. Your interests and their interests come together. So it's not by accident that you're encouraged to buy stock. You're encouraged in fact to want to see your social security taken out of social security and put under your control in the market. You're encouraged to listen; it's reported to you regularly what's happening in the market. It's all part of getting all of us to feel like we have lots in common--our interests and their interests are in harmony.

Audience: Can you just explain what it means to say it's up two points or it's down three points?

SA: You mean the stock market?

Audience: Yeah, the index.

SA: Well, you know there are thousands and thousands of stock market issues, and there are various ways to try to track how the market as a whole is doing. So the business publications and credit rating agencies, and so forth—they construct the indexes, composite indexes, where they take a broad swath of stocks, well for example there's S&P 500, or actually let's start with the most common which is the Dow Jones Industrial. The Dow Jones is a company that publishes *The Wall Street Journal*. And Dow Jones many, many years ago, before even the great depression, they constructed the Dow Jones industrial average, which was an average of thirty stocks (I think it's always been thirty stocks) which are very big blue chip and widely owned stock.

Audience: What does blue chip mean?

SA: Blue chip means established, reputable, credit-worthy, large, dominant companies. IBM, Microsoft, and so on. It's not a technical term, it just kind of, it's almost kind skeptical. But so the Dow Jones Industrial Average is this composite of thirty major stocks and it's put on an index. And those thirty stocks are weighted, of course, by how big they are, because if one stock is very big and another stock is very small, then the one that's big has more influence in the index, and if it goes up it makes the whole index go up further. So they weight these thirty stocks, and so it can tell you that if overall those thirty stocks rose by five percent, the Dow Jones Industrial average will rise by five percent. Five percent of whatever its index number is. So, if it's at 10,000 and those stocks rise by an average of five percent, then the Dow Jones Industrial Average will now be at 10,500. Right?

Audience: What does that 10,000 mean?

SA: The 10,000 is an arbitrary number that's used to just peg the level of the stocks.

MZ: What they do is they take…there was a time at which the value was originally established, when they came up with that set of stocks.

SA: Arbitrarily.

MZ: And they look at the actual dollar value of the shares, weighted by how important the shares are, how many shares there are. And they say, combine this bundle of share, you will today have to spend

$473.12, okay? Let's call that 473.12, one hundred. Let's have that be a value of one hundred. That's an index value. It's not the dollar value; it's the index value in what's called a base year. Okay? And from now, from that point on, we're going to measure the value of that stock—of this bundle of stocks—by looking at this index number, we're going to compare the market value of—the dollar value of--the price to the original and then move that index number up and down. That just makes it easier to keep track of the disparate numbers of shares.

SA: So, if the dollar value started out at 473, and then it doubles to 946, the index number will double from 100, which is its arbitrary number they chose to represent the original number, double from one hundred to two hundred. So they go evenly.

AS: Now, but if you bought, you know, thirty shares of Snapple, what the Dow Jones Industrial Average is doing may have no bearing on that whatsoever.

MZ: Correct.

SA: Because Snapple is not one of them.

MZ: There are a lot of different indexes. So you just have to be careful.

SA: It's interesting, actually we wondered at FAIR where I work, cause every night when you turn on the news you see the stock report, and it used to be that they didn't even have the NASDAQ, it was just the Dow. I mean, the NASDAQ…

AS: And say what the NASDAQ is.

SA: The NASDAQ is a different index. It's like the Dow but it's a different index and it's essentially a whole different trading system. And it tends to, it was much more recent than the Dow, it was created in 1971 or something like that, and it's mostly technology, mostly newer companies, which is why they often call it the technology-heavy NASDAQ, and it's like the Dow Jones, it's an index.

Audience: But isn't the Dow, I mean the NASDAQ…I mean when we're talking about the Dow, we're talking about part of the New York Stock Exchange.

SA: We're talking about thirty shares that happen to trade on the New York Stock Exchange.

Audience: Right and the stock exchange is the trading post, whereas the NASDAQ, isn't that a whole different trading system? And it's the only new one.

SA: NASDAQ stands for, the 'A' in NASDAQ is "automated," and that's the key thing—a new automated system. These are all arcane details that are not that important, but it was a new automated system for quoting the prices of stocks, instead of the old system on the New York Stock Exchange, which is on paper. But this new system, this new stock trading arena, attracted new technology-oriented companies, and now I think the NASDAQ index is usually quoted as a composite of the market. I'm not even sure that it's a total composite of all those companies that are traded on the NASDAQ—it's a hundred of the biggest, best-known, most representative companies on the NASDAQ.

MN: See for a company to go public—that is to sell shares to the public—um it has to meet certain requirements: it has to be a certain size, it has to have had profits for a certain number of years, it has to have a certain number of shareholders, and so on. Which means that they have to be a very big company at least in the beginning, a successful company, for some years to get on the New York Stock Exchange.

So, there are a lot of companies, when they went public, that didn't go through the New York Stock Exchange. It was called, I think, the over-the-counter stocks, OTS, and it's those stocks, I think, that became the basis for this automated trading system called NASDAQ. And so today, if you're a new company and you just started, and you've had a little bit of operations, maybe you haven't even been very profitable, but you want to go public, you do it through NASDAQ. And what's happened is a lot of those companies have been incredibly successful and for reasons of their own, choose not to go onto the New York Stock Exchange. So the NASDAQ really has a range of very small new companies, very small old companies, and some very large relatively new companies.

MZ: I just want to give you once in perspective what owns the stocks. I guess this is data that I have in my book called *The Working Class Majority: America's Best-Kept Secret*. I have some copies here if anybody needs to pick one up; they're twelve bucks. But for stocks, in 1992, latest that I could find, the top one percent of the population own thirty-nine percent of all the stock in the country, the top one-percent. The bottom 90 percent has 19 percent. So the top one percent have more than twice what the bottom 90 percent have. So we're talking about share-holding which is very concentrated at the top of this income distribution. So, and like I say, more than half have nothing whatsoever, and some of the day traders that you were pointing out have come into the market more recently. I don't think they're properly understood, and they don't understand themselves as being share-holders—it's a form of gambling. And they're in there gambling. And they may hold share, but it has no connection whatsoever to being a shareholder in the sense of being a responsible capitalist—it's just a way of throwing your money down and seeing what you get back.

SA: I think the reason why there's this impression that stock ownership is such an incredibly widespread thing now…I mean it has increased, stock-ownership has spread out a little bit more because of the bull market in the past five or ten years. And when there's bull market, when prices are rising really fast on the stock market, people are making a lot of money, people who've never invested in stocks before in their life get into the game because they read about it, they see about it on TV, and they read about it— it's always happened. In the 1920s during the great bull market that you know that preceded the great crash, there were the same kinds of stories about, you know, shoe shine boys getting stock tips and the democratization of stock ownership, and that kind of thing happens all the time.

So there's a kernel of truth to the idea that stock ownership is now more wide-spread than it was before, whereas ten, fifteen years ago maybe the top ten percent of the population were the only people who had a significant amount of money in the stock market so that they really had to worry about the value of stocks, because that was a big part of their income. Now instead of the top ten percent, it might be the top twenty or the top thirty percent, and so it's on the radar screens of the same kind of upper-middle class journalists who have their friends in markets, so they do stories on people who have their money in the market. But that's still only thirty percent. I mean, the total number who own stock is something like fifty percent now, but you've got to understand, most people who own stock…You know I, until about a year ago, I had two shares of IBM stock that my Grandma gave to me when I was ten as a birthday present, and I owned stock. And that's really how the majority of people who are said to own stock, that's the kind of holdings they have.

Audience: Is that with pensions?

Audience: Could we discuss one thing? I'm always curious to know if I were having a casual little money talk in the Goldman Sachs corporate dining room, they might have some different explanations or attitudes about some of these things than you do. And maybe my bagel will cost twenty-five bucks, and I feel that I've gotten a lot more than my money's worth today, but I always want to know, who's really paying for the bagel? I mean, cut to the chase, after all of this talk, um, clearly you're all in some kind of agreement and have a certain kind of solution you say something yucky about the economy that you want us to understand, and what do you think we ought to be doing about it? I just, sort of, more than I want to know all the minutia of what these terms mean, I understand some, but I'd just as soon know, what are we supposed to do about what you guys see as, what's your beef? [*laughter*]

Audience: Well, I want to know why you're here, why you're taking your time to explain it and you know the Ukrainian Restaurant is different than you know it's, it's interesting, I want to know why you're here talking to us, what's your point?

AS: That's such a huge question in a way, and I don't want to dismiss it at all, but I also want to make sure that we get into some of the media analysis that you know, we brought Seth, you know, Seth's had a lot of great stuff to say already, but specifically brought him here to deal with, and we only have about forty five minutes left. So, um, you know, does anybody have a suggestion on how we can both address that question and move on to the media?

MN: But let me just say, I think the answer isn't a very complicated one. In that. If you're at Goldman Sachs or if you were attending an investment seminar that Goldman Sachs runs, and you run that to invite folks to explain the stock market—how can you get in it, how can you participate in it, and so on, and the link, the interest is very clear. They want you to buy stock because that's how they make money. Okay? Um, we're not in the market system in that sense at all. We have nothing to sell, um, where our interest is because all of us for different reasons really believe that the best way for a country to be democratic is with an informed citizenry and the more the citizens understand the workings of the economy, the more intelligent consumers they are of economic information. The better able they will be to make informed choices, and you may make choices that I would not make—we're really not here to impose a set of choices—but rather truly we're all educators; Michael and I are both academics, as is actually Alisa when she's not being a theatre critic among other things, Seth's involved in a media publication, and again, our ultimate objective is to help increase the level of economic literacy, because we think that's good for democracy. Is that good for you? [*applause*]

Audience: Well that's nice, you've said a lot of good things, but I don't know a single economic choice that I've ever made or will make that actually relates…

MN: Okay.

Audience: So how are you educating me on my choices, which is essentially, how much money should I pay on my credit cards, should I take a job that pays more, that takes more of my time? What kind of things does this actually affect? [*talking*]

MN: It involves you as a participant in the great debate on public policy that takes places, in a way that you go, for example, contact your congressperson about where you would like him or her to position themselves on the question of the privatization of social security for example. We're really talking about the big public policy issues, which is not to say that your own choices are unimportant, and that the more informed you are the better they're going to be. That's true, but that wasn't the agenda for this afternoon.

Audience: I have one more question and I know it's distracting from talking about media, but there's this emphasis on consumer confidence and the necessity for the economy to grow from this consumer confidence and consumer spending is an issue, and there's also this statement that there's not enough savings happening in the economy. Those are contradictory things, and who resolves them and who sets what and what, I mean…

AS: I'm not sure that is a distraction, I think that goes right to the *Times* article, maybe they can answer that by…

Audience: Okay.

SA: Um well, in a narrow way, the way to answer your question is that um— and this is in a narrow sense—if consumers have a lot of confidence and they think that their job is secure and they're going to be able to pay their bills, then they're more likely to go out and spend money; and spend money on products that American companies make and those companies will better be able to invest in higher workers and that'll keep the economy going. That however, they spend a higher amount of their income and they lower their savings rate, right? So if the rate of consumption, which is the opposite of the rate of savings, if the rate of consumption goes up, then that'll compel the economy to keep going.

The concern that is being voiced in this article is that we can't (and it doesn't really spell this out)…is that the US doesn't have enough savings. There are structural problems with the way we divide our income between saving and consumption that make it impossible for us to keep increasing the amount of consumption if we keep reducing our amount of savings to keep the economy going. Because really the reason why the economy has been growing as fast as it has over the past five or six years, and it's been growing faster than it had over most of the previous twenty- twenty five years, that's why they talk about this miraculous economy. It's because consumers, and not just consumers but businesses, have been spending at a much higher rate and have been saving at a much lower rate, and have been borrowing huge amounts of money in order to finance their spending. Now the more businesses and consumers borrow and spend, the more the economy's going to keep expanding, but on the other hand, the limit comes at some point as everybody knows. I mean, if you have a credit card, you can borrow and buy all sorts of great things and when the bill for the credit card comes due you can borrow the money from the bank or from one of those sham money-lending agencies that you see on TV. I mean, you can keep on doing this and you'll live quite well for a while. Um but eventually there's a limit, and where that limit is, is what you might stay awake thinking about while you're doing this [*laughter*]. Because you don't know exactly where that limit is.

Audience: We're out in no man's land, as far as the way the economy works, we've evolved into something different, oh and the limit, that never happened.

SA: Well that's what keeps Alan Greenspan and you know Robert Rubin and Larry Summers, and Barry Lindsay—all these people are now staying awake thinking about this—the people in charge of our national economy. They're thinking about whether we've reached our limit, where the limit, if we're going to reach it, and they really, they don't know, they would rather not have this debate publicly, at least not in front of the children you know [*laughter*]? At least not in the most explicit terms they could use.

And I think this article is really an example of a kind of more euphemistic expression of these concerns that are keeping these people up at night. You know not too long ago the council on foreign relations had this big conference closed to the press, with all the big cheese you know, financial types and former treasury secretaries. Robert Rubin was there and Pete Peterson was there, and it was about, it really had this apocalyptic title for the conference, but the basic idea was whether the way the economy has been going—the domestic economy and the global economy—whether the way they'd been going over the past five or ten years is going to reach its limit. Whether there's going to be some big disaster and what to do about it. They were much more explicit about those fears in this closed to the press, closed-door conference at the council on foreign relations and they tend to be you know when they're talking to the press for obvious reasons, or maybe somewhat for prudent reasons, but that's really the concern, I think that's the axes that articles like this are based on.

Now, I guess the question that we're supposed to answer is to what extent are these concerns justified, to what extent are the concerns things that they should be worrying about but not we should be worrying about, you know, things that are more troubling to them than to us? And again, these are complicated questions, but so it's a complicated question. I guess I would start by saying that there's a kernel of truth to the idea that we should be concerned, I think more than a kernel of truth to the idea that we should be concerned about whether our economy is going to reach this limit. Because the fact is that the economy has been growing on the basis of this enormous expansion in borrowing, an unprecedented expansion in borrowing. If you isolate the American households and businesses, and you combine them into a private sector, as opposed to the government sector, and then the rest of the world sector that we trade with, but just that private sector of households and businesses, that kind of sector has had a deterioration in its financial balance. Which means that it's been spending more than it's earning, and making up the difference by borrowing. Its financial balance has deteriorated over the last ten years so that it's actually running a deficit, you know. We often think about the government running a deficit because it's always in the news whether it's running a deficit or a surplus, but what's almost never talked about is what the private sector financial balance is, whether the private sector has a deficit or a surplus.

Audience: I'm sorry, just to go back to something you said, when we're talking about national debt we're talking about the government deficit.

SA: Right.

MZ: No.

[*laughter*]

MZ: Not quite. The deficit is not quite the same thing as the debt.

Audience: But we're talking about the government.

SA: Right, we're talking about the government.

Audience: As opposed to folks like us.

SA: The deficit is the annual amount that the government has to borrow, and the debt is the total stock of debt.

Audience: So if I owe a huge amount on my credit card; that is meaningless to the concept of national debt.

SA: Right, national debt refers to the government. Right, but it's important to make that distinction between a deficit and a debt.

Audience: But if these earnings have increased so much for the CEOs of the businesses to 500 times the worker, where is that money? You just, what you just said about the businesses in the private sector being in a negative position, where's all the money?

Audience: They're using it to buy stocks. [*laughter*]

SA: Yeah, well when you talk about the large negative financial balances, they have a deficit, that doesn't mean that they don't have any money. They've got plenty of money, but it borrowed money. It's money they borrowed rather than money that they earned off of their businesses operations.

Audience: They've earned these record amounts, but they've so mortgaged over the top of that.

MZ: Right.

SA: Exactly.

Audience: Can I ask a quick question? Because you caught a term that I wanted to catch. How come the national debt clock on 42nd and 6th Avenue doesn't stop? Is it going somewhere? [*laughter*]

SA: Right.

Audience: I mean is it ever…

SA: I think, well the reason why it hasn't stopped going up you mean?

Audience: Right.

SA: Even though we're running a surplus is because the accumulated stock of debt that we've accumulated from past deficits that we ran has interest that accrues to it. So the interest --and it's a magical compound interest --, it keeps increasing the amount that we owe.

Audience: So then what's the surplus?

SA: The surplus is the annual amount that we are able to pay down the debt. It's the opposite of flow of money. So when we have a 300 billion-dollar surplus, it means that we can pay off three hundred billion dollars' worth of the debt that we built up.

MZ: Or we can spend the 300 billion dollars on schools, or we can give people back 300 billion dollars in a tax cut. There's a lot you can do with that surplus. Those are the issues that are now in front of the country: what to do with that surplus, and even how big it is, how to understand it, how much of that really belongs to social security, should it be counted or shouldn't be counted--there are all these different accounting conventions that are in there and they have their own politics. It's a very interesting maze to go through.

Audience: It's not like the country decides the same way you do if you want, like, the way the trend is going it seems like people used to buy their homes with the intent of paying off the mortgage, and once they had the mortgage, they owned their homes. Great, rah, you know, rah rah. But now people just want to get the equity out of their homes so they can use it now, it's the same thing as what the government's doing.

SA: That's not part of the same trend. It used to be that you know there's a percentage of your mortgage that you actually…a percentage of the value of your home that you borrow in the form of your mortgage and then there's a percentage, a small percentage usually you get as a down payment. Down payments have been falling in the past twenty years, and a larger percentage of the purchase price of homes are money that people actually have to borrow from the bank, and that's one of the factors that contributes to this trend of the private sector having this deteriorating financial balance, there's more and more debt.

And like I said, I think it's a good question that you had: they've got this negative financial balance; they've got this deficit; why are they still awash in money? And it's because they' re borrowing the money. But that borrowing that they do, both businesses and consumers, both businesses and consumers fuels the expansion, because when businesses borrow money, they spend the money on buying plants and equipment to make investments, and when consumers borrow money, you know, on your credit card, they spend the money on buying products, buying a car, buying a refrigerator whatever. And those things, you know, increase employment in the country and they increase economic growth.

MN: But they're fundamentally different, right? I mean when a business borrows to invest in expanding business, the money that they earn as a result of the expanding business can help pay back the loan that they borrow. When a consumer borrows to buy a car and drive around and have a good time or whatever, that car, not only is it not making any money for them to help them pay back the loan, it's actually depreciating in value.

SA: That's right, and that's an important distinction to make between borrowing for consumption and borrowing for investment. And you know, even individual consumers, I mean there are some things that one considers investment when a consumer borrow for them like paying for a college education, that's considered an investment, because it does have a return, you can theoretically make more money if you have a college education or if you have a law school degree or whatever. But if you're borrowing money to buy, you know, a week-long cruise to the Caribbean, then that doesn't have a very salient return.

Audience: Isn't the crux of the question that we sort of don't understand, who ought to hold capital and value in the economy? I mean my father once said that capitalism is the exploitation of man by man and communism was just the opposite [*laughter*]. This idea of distributing income through fiscal policy, how can you enlighten me on that question of who ought to have that money? Because it's always talked about that it's bad that these upper levels have all this money, and then of course you hear lots of arguments about capital formation, R and B, new investment, that's the way the economy grows. You give money to working people, they spend it on things, they blow it, you give it to the rich, they make businesses, they make jobs, I mean, what's your position on that?

SA: Well the question of who ought to have money is a political question and the, there's tremendous amount of energy and resources expended in the world towards trying to make it seem like it's some sort or scientific question. You know, that there's some sort of science of finding out who ought to have the money and then once…

Audience: Isn't that science economics, so you're saying economics can't answer that question.

SA: Economics cannot answer that question. That's a question for the same reason that you have the question who ought to vote? Who ought to be able to vote? Well, can you do a scientific investigation into that? You can do a pseudo-scientific investigation into that and say well these people have an IQ of 4 point you know and then you can say, well these people ought to vote and these people shouldn't. But ultimately that's a political question, who ought to be able to vote. It's the same thing with who ought to have money or who ought to have jobs?

Audience: Could you maybe talk about how it's been with Clinton versus how it was in old Bush, the practical issues of how they approached some of the things we've brought up? Because I feel like maybe that's the more practical way of addressing this issue, I feel like it's again getting away from learning how, what we go through for instance, which is for me more practical than knowing if we should invest in Snapple. You know, what are they actually thinking? What are their proposals? What was going on during Clinton? I don't really feel like I really understand what was his position regarding unemployment, regarding interest rates, regarding inflation, what happened?

Audience: And how much did he actually have an impact on it? Because that's something that I read all the time right now the Bush people like, well things were good under Clinton but that wasn't really him, but there's a recession coming so that definitely is his fault. [*general talking*]

AS: That's what I was going to also suggest. That one way to get at these same questions, is in going back to, is what assumptions, when we read about these things and we read about the Clinton economic policy what unexamined assumptions are embedded in these stories, what questions are not being made explicitly and so forth?

Audience: Can I ask a question? Just like for instance when the president gets on and makes a State of the Union Address and gives the budget and says, "Okay, we have a surplus. The surplus is based on a prediction of things on certain criteria, and if something changes, that surplus may actually never come to be." He's got a political reason for saying that there is a surplus, and you're being misguided if you say, "Oh great we've got a surplus now."

SA: Well, I think that when you talk about the unexamined premise, or well the unexamined questions, I think this article is a particularly good example. Because the premise of the article is the thing that keeps Alan Greenspan awake at night, the idea that we're going to reach this limit, that the economy's been expanding on for reasons that are fundamentally unsound or unsustainable, and the specific reason that they believe that there might be this limit is that the expansion has been fueled by borrowing, and we haven't been saving enough. Which are basically two ways of saying the same thing: too much borrowing, too little saving. So that's the premise of the article.

Whether or not that's true is a question that I actually think that reasonable people from the left, right and center can disagree on and are disagreeing on right now. And I've seen arguments from what someone called far left, saying that that is an absolutely reasonable concern that we should all be thinking about, people on the right saying the same thing—this is not a question that tends to break down along the lines of politics. Whether or not the economy can sustain its expansion the way that it's been doing for the past five or ten years is an economic question, I think. It's a question that we can't predict with certainty; we're going to have to wait and find out, but it's something that has to do with how the dynamics of the economy work.

However, let's accept the premise for a second, that the economy is reaching its limit: too little saving, we need to increase our saving. Let's accept that for a moment, for argument's sake so we can entertain this article. What do we do about it? Well this article, which is written by Richard Stevenson, who covers economic policy for the *Times*—he covers the Federal Reserve, he covers fiscal policy, he covers all those things for *The New York Times*. Stevenson is not a terribly bright guy. I've been reading his articles for a long time. [*laughter*]

Audience: Throw down the gauntlet.

SA: Well, I don't think I'm going out on a limb when I say that. He's never really been known as a go-getter reporter he's never really broken an amazing story, I don't know a single person who has said, "Wow, did you read that article by Richard Stevenson yesterday?" It's never happened. He's a guy who really only knows what his sources tell him and I think that's an important point to remember when you read articles like this. 99 percent of the time—especially with economic news, since these reporters are often dumb people, not all of them, but they're not often terribly educated or informed about the economy, and they don't spend a lot of time thinking about it—they tend to write what their sources tell them, and so you have to ask who their sources are.

AS: Goes to the question of expert that somebody raised.

SA: Question about experts, right exactly. I think in this article there's what, 3 or 4 people quoted. So, there are four quoted sources.

Audience: But I just want to make a quick analogy. I don't know if you remember when Anita Gage, those people who are here from the theatre. Anita Gage became a *Times* theatre critic, and she came from the Real Estate section. So, you know, perhaps you're making a similar suggestion… [*laughter*]

SA: Um, who knows who Richard Stevenson was talking to before he wrote this article, but we know that there were four people that he quoted, and from what I could tell, we've got two of them come from financial institutions. They're the employees of banks, brokerage houses. We've got Richard Burner, chief US economist at Morgan Stanley Dean, who also happens to be the president of the National Association for Business Economics. And we have, uh I think there was a guy from, uh who was the other guy? Oh, James Lasdun from Chase securities. We have in addition an economist at Columbia's business school, and remember, economists come in all stripes. Some of them are employed by labor unions, some of them are employed academically—economics departments, public policy departments—then there are the economists who work at business school. And their job is to teach their students how to graduate and make a lot of money, and not making a lot of money by getting a great union contract, I'd gather, for making a lot of money by you know, making a big profit. And that's what he spends his time thinking about and trying to, that's what he spends his time puzzling out, is how to make a lot of money in the business world.

And then the fourth source that I saw was Robert Leighton from the Brookings Institution, which I think was one of the things that was asked to be defined. Leighton used to be an economist with the Clinton administration. I think he was actually at the Justice Department in their anti-trust things. But he is a mainstream centrist economist as befits most of the economists who work for the Clinton administration. And the Brookings Institution where he works is a think tank, which is like a research group in Washington, which is there to take calls of uninformed journalists like Richard Stevenson so they can tell them what to write in articles. And they're supported, you know, they're paid to do this by the donors to their think tanks, because think tanks don't tend to make money; they have to rely on handouts. And the Brookings Institution, if you look at its board of directors, it's all people from Aetna insurance company and IBM and it gets a lot of money from corporate donations, but it gets most of its money from really big cheese establishment foundations like the Ford Foundation or, you know, the kinds of foundations that give money to artists and tell them to tone down their work. That's the kind of foundation that gives money to the Brookings Institution and that's the kind of work that the Brookings Institution does, economically. They, the Brookings Institution, is there as a kind of a guardian of conventional wisdom and a guardian of the consensus, and almost everyone who has a senior position at the Brookings Institution is a former government official, especially in their economics department.

And the reporter, Richard Stevenson knows what he's getting into when he calls them. He knows who he wants to call. He knows what kinds of sources he wants to talk to because he knows what kinds of sources he wants his information to be based on in his article. So you've got, like I said, two people who actually are employed by the financial industry, one guy devotes his life to teaching people how to make a lot of money as a business executive, and then you've got another guy who is a mainstream economist who's paid to guard the consensus of conventional wisdom about how to run the economy—a conventional wisdom shaped in no small part by the guys who work for the financial industry, and the people who work for the business schools and so on.

AS: So how would this article be different if Richard Stevenson had called Michael Zweig?

SA: Well that's a very, very good question. If he called Michael Zweig, or he called another economist who doesn't identify with the same circles that James Glassman and the other guy work for. And he asked this professor, he asked the economist, "Let's say the economy is reaching its limit, and we've been spending too much, we've been saving too little, and we've been borrowing too much, and we need to increase our national savings. Assume that premise. What Mr. Economist would you suggest that we do about it?" Now the answer that these people gave—and I'll get to what the answer that someone like Michael Zweig might say, I'll get to that in a second—but the answer that these sources gave is that, "Oh, well if we need to save more, we need to spend less, and the first thing we do is cut Social Security and cut Medicare." I mean, look at the article, they're talking about how the aging population is going to drain resources, because we pay for the pensions and for the health care through Medicare and Social Security, and this is tremendous and just unbearable you know, burden on our economy, which is draining…

Audience: Where is the ice wall when you need it? [*laughter*] That's what I want to know.

SA: So we can't afford to keep Grandma on the dole [*laughter*], it costs a lot of money to pay for her hospital care and so on, so that's where we need to cut, if we're going to have to raise savings. Now…

Audience: Never mind that a lot of that money came out of their checks over the years…

SA: I think that it's not just an economist like Michael Zweig, but pretty much anybody who could probably think of better places to take the money out of [*laughter*] than Social Security and Medicare, if you're going to have to come up with some sort of extra savings. You could also increase savings by having the government tax rich people more and buying back government bonds. I mean, it could be as simple as that; economically speaking those are equivalent transactions. Both of them raise savings, both of them lower consumption. You tax rich people who would otherwise spend their money on yachts or whatever, and then instead buying yachts, they give the money to the government, and the government buys back government bonds and it adds to the pool of savings, and then your problem is solved. But that's not an option that came up in this article. And I've read many articles like this and it tends not to come up at all. You do tend to get a lot of articles talking about the aging population—it's going to be this drain on resources or we're going to have to cut Social Security and Medicare, and like I said, there's a lot of money and a lot of energy and a lot of time spent in this country on trying to convince us that that's really a problem. And that's how we can confront our economic problem. I mean, I'm sure everybody in this room has heard of the impending Social Security crisis that's going to drag the nation into poverty and despair: that's part of the same idea. It's hokum.

MZ: It's just bullshit, and it's being proposed and it's being promoted to scare people so that they'll go give their money to Wall Street, so that those guys can make money on commissions, and have more money to boost, to keep the value of those markets rising. It has nothing to do with the actual needs of people in retirement. These guys don't care about people in retirement, they are ready to step in your face to get more money, and they are running the country.

I was in Washington yesterday, and I have to tell you that those are the people who are back high in the saddle. And I would ask, what's the difference between them and Bill Clinton? Bill Clinton is close to that in that he is in the range of political leadership that says that business has to have a free hand to be able to expand its activities so that we can all share in the prosperity. The difference is that Clinton's more ready to say that we need to make sure that this rising tide will lift all boats and to have everybody be in a position to take advantage it, on issues of race, on affirmative action, there is a difference. I don't want to say there's not a difference. But what is underneath this is that if it's good for capital, it's good for the country. If it's good for General Motors, it's good for America.

And what I want to say that's not in here, that gets to your thing about well, isn't it really the capitalists who have to have the reign, because, hey, that's where the jobs come from and who could say it isn't true? Well, I have to say that what we've come to there is the question of where does wealth come from? That's really a profound, deep question, and the first person to really discuss that from the point of view of capitalism is Adam Smith, not Karl Marx, and Adam Smith had a very clear answer. Where did wealth come from? That was the name of his book, right? *The Nature and Origin of the Wealth of Nations*. Where did it come from? From labor. From people working to create wealth. And where did profit come from? Also from labor. Adam Smith said that, the guy who's on all the neckties that all the Reaganites were wearing? That face? The source of all profit is the work of the workers employed by the capitalists.

Audience: Did Marx disagree with him and say that the worker can't work without the tools of labor?

MZ: No Marx did not disagree with him.

Audience: Did he agree with him?

MZ: Marx took that and founded and developed and elaborated that into a revolutionary idea. Looked at that and said, "Hey you know what? That's true, and here are the consequences. These guys' days are numbered." Soon as that was decided, then the whole economic literature changed, the whole economic question changed and that all became inappropriate, illegitimate.

But if we come back to who are these people? These are people who are saying the core of our problem is to secure the profit of capital and to secure the free reign of capital in the market. We don't want to have restrictions on what business can do. We don't want have to have restrictions on the profitability of activities, whether environmental or labor restrictions.

And I want to call your attention to an article that appeared in the paper just today, you may not have seen it. The rate of unionization in the United States is lower now than it's been at any time in America since the 1930s. Only about 13.5 percent of the labor force in the United States are in unions. Unions are an instrument by which working people exercise power. What has happened over the last 30 years is that working people have lost power in the relation with their employers. Capitalists have gained power, and with that power they have taken to themselves the wealth that has been created by the workers they employ. Now that isn't Marx, that's Adam Smith. And that question is really at the heart, you said what's the practical, what do we have to do? To my money, what we have to do is figure out how to get the working class in this country, the working people, and us associated with that to have more power. And in exercising that power, to come up with an agenda for how to save Social Security, which means how to make sure that people who are too old to work and too young to die, don't have to die too young still. That's the question that we have in front of us. What's the answer? Is it a policy question? Yes it is a policy question. But it isn't just the nuts and bolts of how do we count the deficit and what accounting formula do we use to take care of the potential old age population with this geriatric table against that geriatric table. It is, what, who's problem are we trying to solve? Are we trying to solve a problem with the capitalists who are making money, are we trying to solve a problem of the workers who are creating it?

MN: You know, Bill Gates pays the same Social Security tax as you do. Because there's a limit at the point at which they start taking the tax out.

MZ: 80,000 bucks.

SA: He actually pays a lower percentage.

MZ: Much lower

MN: Of his total. That's right, a lower percentage of his total, but in absolute dollars the same amount. And imagine solving the problem by just raising the ceiling.

Audience: But can I just ask you though, but what, on a practical level, I was in Washington too yesterday, I'm cranky about all this you know? Now Bush is the president again, and you know, that's how I feel about it, and it's not the way I voted. I mean, I'm not one of those people, I mean, I'm an illustrator, I don't sit writing letters all day, I'm not terribly political. I just want to know on a practical level, okay so what do you do? I've been living in Sweden for a year, I don't want to move back to Sweden: this is my country. And I want to know, what do I do you know? I don't work for a car company, it's not so clear this union whatever. I really want to know to bring more power back where it belongs, to the majority of human beings, you know in this country, it'd be a really nice thing, but this is not a socialist country, this is a capitalist country, so what do you do?

MZ: Well, in New York we have a round of collective bargaining that's going on right now…

Audience: Collective what?

MZ: Collective bargaining means, unions, municipal unions, teachers' unions, the union that's representing the faculty, uh professional staff, congress that represents the CUNY budget and CUNY faculty, we've got the transit workers, we've got various people. And the question is what kind of public budget are we going to have in New York City? How's the money going to be spent, where's the money going to be raised, what kind of city are we going to have? Are we going to have a city where artists can actually live and work and have studio space? Are we going to have a city where the real estate agents sell out the city to the top bidder and the people who're getting 13.5 billion dollars in bonuses last year, 13 and a half billion dollars in one week distributed to a few tens of thousands of people on Wall Street, which is why you can't get studio space in New York City.

AS: So what are we going to do.

MZ: What we are going to do about that, that has to do with who can put a box around the power of that money in this city and who can limit that power. That's not just a technical question, although it is, how do we build the housing, how do we actually get the medical care distributed to people, how do we get kids to have vaccines, how do we have instructional equipment in classrooms that don't have 38 students in them? Those are technical questions, but underneath that is the political problem of getting ordinary people, working people in this city to have power? And that's a political question that we all confront in who we vote for, who our district leaders are, who's in the city council. We have elections coming up…These are issues that we can bring to the fore, we can go to community meetings, we can raise these things, when the unions are out on strike, or when the unions are making noise, we can participate in that, we can respond to that by saying, "Yeah, they talk for me, they're not some special interest." See that's what's happened, labor is got to be called a special interest. When the majority of the people in this country are working class people and they're getting screwed. And all the time they're getting screwed, they're being called the special interest, marginalized, demonized, because the people who really have the authority, who should have the authority, are the people in the nice top hats and fur coats who are down there in Washington taking power. It's sick.

AS: I think, I mean I think that you know to sum up, basically, what, one thing that Michael's saying is that the answer is political organizing, which isn't something that we can accomplish here, and certainly not in five more minutes. [*laughter*] But I do think, no but I think it's the right answer, and think that there are two more of these sort of informational sessions coming up, where I hope to see all of you again on February 11th and 25th. And Melanie is already talking about then building some other kind of event after that and I think that may be the place for us to start figuring out, how do we connect? As we're learning more about these things and then in some ways, at least speaking for myself, feeling on the one hand that a lot of this is being demystified which makes me feel a little more empowered, but at the same time, understanding the size of it makes me feel like it's so, okay, fine, now I know how I'm getting screwed and there's not a lot I can do about it. [*laughter*] Maybe one of the things we can think about is how to connect what we're trying to learn about here to some of the organizing that's already happening.

MJ: And I also think that's part of what's going to happen on the 25th, you know, I mean at least we'll be able to explore what is going on right now, what kind of address is being made by whom and where. And also I think... and I need to say this, because we do these large events every once in a while. Some of you know we did one on war crimes and genocide last year and we did one on hope. We did one on hope and one on genocide [*laughter*]. Um, and I think that part of this, the kind of teach-in, this is something that has to continue to be extended at the same time as organizing is necessary to do. It's really important that we have these opportunities to begin the act of demystifying into powerful, political acting itself. And I really want to thank you for coming, because I think it's very useful and, it's very useful to engage more and more people in that, because again, then they ask, what can we do as opposed to saying, forget it.

MN: Oh, for Michael Zweig though, he, Michael's book *The Working Class Majority: America's Best Kept Secret* is actually a very interesting book. And I have read it, and those of you that really wanted to see, just some of his ideas a little bit more will find it very enlightening I think. And he does have a couple copies here, and they are available for twelve bucks each, and he's too modest to say that, so I thought I'd say it for him.

Audience: And I suggest that if you really want to demystify this information, write down the names of things that people should read that are classic economics texts, not to do any disservice to reading your book, but if people really want to read, I think you should tell us the name of the Adam Smith books, and the classic, and the Keynes…

[*talking*]

Audience: I think if you want to give away information that really makes people feel like they can educate themselves, they need to go to the basics.

AS: So why don't we make a bibliography for next time…

MJ: Yeah, I have a suggestion. Michael, maybe you could E-mail me some titles, and if anybody is interested in those titles I can forward it to them, so you can E-mail the Foundry, foundryth@aol, and I'm happy to forward along any kind of information that I can get from Michael and Seth. And may I say thank you so much for coming out.

[*applause*]